SUN-RYPE

2005 Annual Report

Real Fruit Goodness.

Highlights

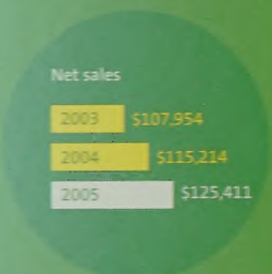
Operating

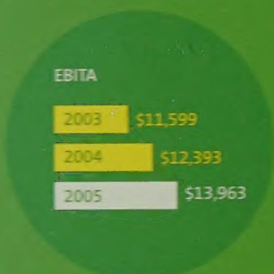
Sales increased 8.9% to $125.4 million.

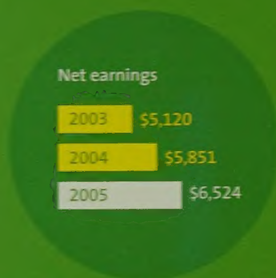
Earnings after tax were $6.5 million.

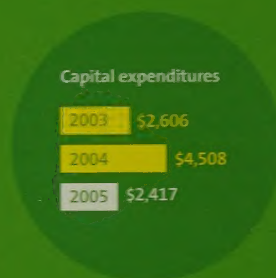
Obtained widespread distribution with a few select 100% juice products in central and eastern Canada. Prior to 2005, only food products were distributed nationally.

Launched Sun-Rype Fruit Plus line of juice and juice combinations—with added healthy benefits such as soy protein, non-dairy calcium, folate, and essential vitamins and minerals.

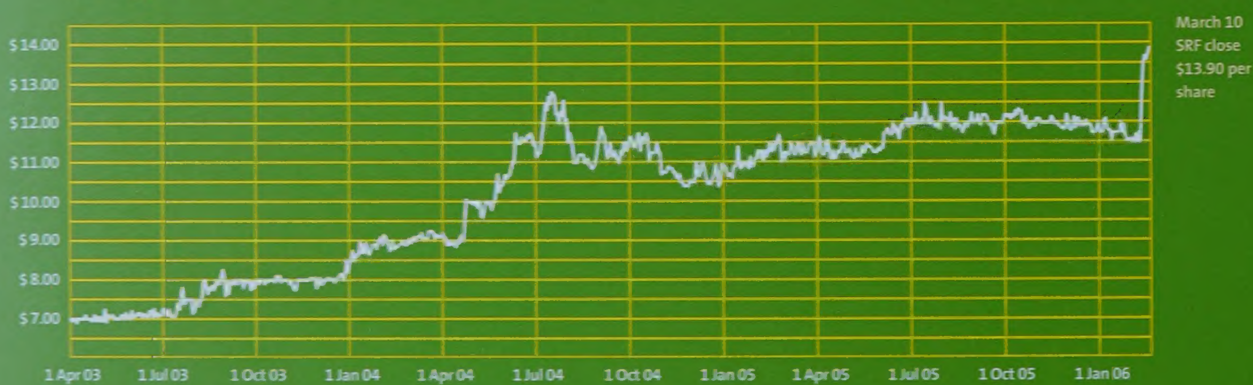








Sun-Rype Share Price April 1, 2003 to March 10, 2006



Financial (in thousands of dollars)

	2005	2004	% increase
Net sales	$ 125,411	$ 115,214	8.9
EBITA[1]	13,963	12,393	12.7
Net earnings	6,524	5,851	11.5
Capital expenditures	2,417	4,508	(46.4)

[1] Earnings before interest, income taxes and amortization.

Profile: Based in the heart of British Columbia's fruit growing district, Sun-Rype Products Ltd. is a leading Canadian manufacturer and marketer of juice-based beverages and 100% fruit-based snacks with annual sales of more than $125 million.

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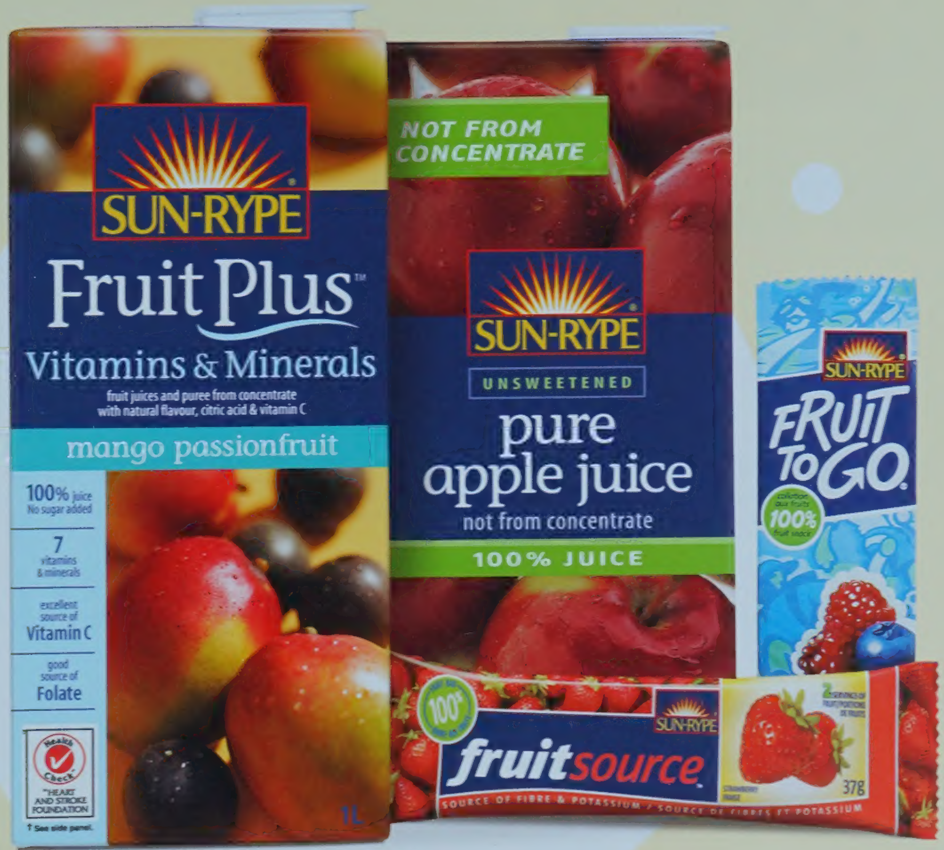
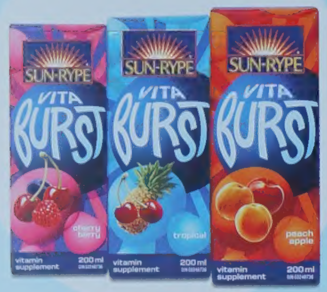


Real Fruit Goodness. At Sun-Rype, we are committed to providing the simple, nutritious products that help today's busy families incorporate healthy eating into their active lives. That's why we put the goodness of real fruit in every product we make. From our premium line of products that include a wide range of 100% fruit-based snacks and 100% juices with no added sugar to our most recent introduction of our new Fruit Plus line, which offers extra healthy benefits such as soy protein, non-dairy calcium, folate, and essential vitamins and minerals. It's the Sun-Rype combination of great taste and wholesome goodness that really sets us apart.



Vita Burst Moms know how tough it can be to get kids to eat foods that are good for them. That's why we developed Vita Burst. The first of its kind in Canada, this delicious line of single-serve products is made with fruit juices from concentrate and 11 essential vitamins and minerals. Vita Burst is available in three popular varieties, with high-energy packaging that really appeals to kids.

Letter to Shareholders

2005 was another year of progress for Sun-Rype as we posted our fifth consecutive year of increased revenues and earnings. This performance was made possible by the success of a range of key initiatives that bolstered the strength of our brand, expanded our presence in national markets and advanced our evolution into a higher performing organization.

Strong financial results

Sales increased 8.9% to $125.4 million in 2005, driven by strong growth in branded food and beverage products and in contract manufacturing. Overall, branded sales increased by 8.3% from a year ago. Branded food sales were up 2.5% from the previous year on the strength of demand for our new 100% FruitSource snack bars. Branded beverage sales were up 10.5%, due to strong demand for our single-serve 100% juices. In September 2005, Sun-Rype agreed to manufacture fruit-based snack bars for a large multi-national food and beverage customer for distribution by the customer in the United States under its brand name.

Gross profit (net sales less the cost of goods sold) was $44.8 million or 35.7% of sales compared to $39.2 million or 34.1% of sales in 2004. Gross profit was positively affected by lower raw material costs—some due to an appreciating Canadian dollar—and improvements in production efficiencies.

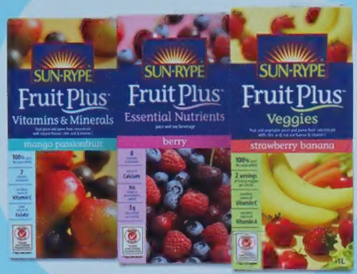
Selling, general and administrative expenses were $30.8 million or 24.5% of sales compared to $27.5 million or 23.9% of sales in 2004. The percent increase is due to higher freight costs for shipments to customers, the addition of new executives on the management team, corporate restructuring costs and an increased focus on human resource initiatives. Net earnings for the year reached $6.5 million or $0.60 per share, an increase of 11.5% over 2004. Dividends paid in 2005 were $1.3 million compared to $1.0 million in 2004. In the second quarter of 2004, Sun-Rype paid its first-ever quarterly dividend.

Real Fruit Goodness

These results are the product of a growth strategy that has been guiding our efforts over the past year. It can be seen at work in a number of key initiatives.

Focusing on our "top performers"

We continued to focus on our 100% juices and 100% fruit-based snacks that have further strengthened Sun-Rype's reputation for wholesome, great-tasting nutrition. Our emphasis on 100% juice, no sugar added products has been met with strong acceptance from consumers and retailers. In 2005, retail sales of Sun-Rype



Fruit Plus The new Fruit Plus line of juice and juice combinations delivers the great-tasting goodness of juice plus the extra nutritional benefits that today's active adults are looking for. Introduced to the market in 2005, this innovative line of products comes in four distinct varieties that give consumers a deliciously convenient way to add extra healthy benefits to their diet, such as soy protein, non-dairy calcium, folate, and essential vitamins and minerals.

100% juices increased by 38% and we maintained the #1 brand position in the total juice, drinks and nectars category in western Canada.

Our focus on 100% fruit-based snacks has been similarly effective. Since its introduction in the latter part of 2004, FruitSource has quickly seized the #2 market position in the fruit snacks category. In fact, it is second only to Sun-Rype's Fruit to Go, which commanded the top branded share position in 2005 for the third consecutive year. Such products are the key to Sun-Rype's success because they are fulfilling real consumer needs while enhancing our margins and those of our retail partners.

Accelerating new product development

With those objectives in mind, we have accelerated the development and launch of several innovative products during the past year. Fruit Plus is a whole new line of juice and juice combinations targeted to health-conscious adults that delivers an extra level of nutritional benefits—such as soy protein, non-dairy calcium, folate, and essential vitamins and minerals—in addition to the wholesome goodness of juice.

We also continued to build the market presence of Vita Burst, a new line of single-serve products for children made with fruit juices from concentrate and 11 essential vitamins. Introduced in the fall of 2004, Vita Burst made inroads into the highly competitive single-serve market in 2005 by giving parents a convenient way to ensure their children get more of the vitamins they need to grow.

Expanding into central and eastern Canada

At the same time, we are continuing to expand Sun-Rype's beverage business into central and eastern Canada with a strong focus on unique, value added products. The past year witnessed the successful launch of a focused portfolio of 100% juice and Fruit Plus products from Ontario to Newfoundland. These wholesome products have generated a favourable response from consumers and helped Sun-Rype establish an important foothold in the larger but more competitive market of central and eastern Canada.

Building the Sun-Rype brand

Each of these product initiatives has been supported by continued investment in the Sun-Rype brand. Over the past 59 years, Sun-Rype has established a reputation for great tasting, wholesome products and in 2005 we continued to invest in the equity of our greatest asset. The past year included our first national brand campaign—Real Fruit Goodness—which was designed to emphasize the healthy attributes of our products and reinforce the promise of the Sun-Rype brand. The campaign included a strong mix of major media such as television, magazine and cinema as well as a redesigned, highly consumer-oriented website.

Real Fruit Goodness For 59 years, Canadian consumers have trusted the Sun-Rype name as a guarantee of high-quality, great tasting, wholesome products. During the past year, we continued to deliver on that promise while investing in the Sun-Rype brand across the country. For the first time, we embarked on a truly national brand campaign that included television, magazine and cinema advertising. Our new theme—Real Fruit Goodness—speaks to the 100% fruit goodness of our products and the vital role they play in the lifestyles of active, health-conscious consumers.

A commitment to continuous improvement

Equally important, we continue to focus on productivity-enhancing initiatives in both manufacturing and management that will create an even stronger platform for profitable growth. Cross functional project teams are improving the way we do business throughout the organization from improved sales forecasting to more efficient manufacturing and distribution. At the same time, we are determined that our increasingly sophisticated approach toward performance management will not jeopardize the entrepreneurial spirit that has been such an important part of our success to date. Such thinking is reflected in the reorganization of our business with the addition of marketing, human resources and supply chain vice presidents.

Any reference to market share is based on independent research by ACNielsen.

A Word of Thanks

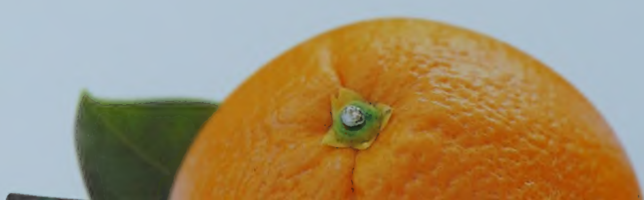
Once again, Sun-Rype's success is the direct result of the spirit and dedication of Sun-Rype's 425 employees. Thanks to their efforts, we have posted another year of strong financial results while laying the foundation for the years ahead. With the continued determination of our employees, and the support of our valued suppliers and customers, we look forward to 2006.

In closing, we would like to express our gratitude and best wishes to Mr. Robert Dick, former Vice President of Manufacturing, who recently retired from Sun-Rype after 31 years of dedicated service. On behalf of everyone at Sun-Rype, we wish him a long and happy retirement.

Sincerely,

Eric Sorensen, President and CEO

Merv Geen, Chairman
March 10, 2006



Management's Discussion & Analysis

How to Use this Management's Discussion & Analysis ("MD&A")

The following management's discussion and analysis as at March 2, 2006, is intended to help readers understand Sun-Rype Products Ltd. ("Sun-Rype" or the "Company"), its history, business environment, strategies, performance and risk factors from the viewpoint of management. It should be read in conjunction with the financial statements and the accompanying notes for the years ended December 31, 2005 and 2004. The following comments may contain management estimates of anticipated future trends, activities or results; these are not a guarantee of future performance, since actual results could change based on other factors and variables beyond management control.

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls, and to ensure that information used internally or disclosed externally, including the financial statements and management's discussion and analysis, is complete and reliable.

Overall Performance

Sun-Rype celebrates its 60th anniversary in 2006. Since its beginning, manufacturing process grade apples into juice and sauce for western Canadian consumers, Sun-Rype has grown in both the number of product offerings and geographic distribution. Sun-Rype branded food and beverage products, now sold across Canada, are based on core values of providing healthy, wholesome fruit-based snack foods and beverages. Sun-Rype 100% fruit juices are the market leaders in the juice, drinks and nectars grocery channel in western Canada. In the fruit snacks category, Sun-Rype 100% fruit-based snacks, Fruit to Go and FruitSource, are also market leaders.

The Company remains focused on value-added manufacturing and marketing. In addition, Sun-Rype contract manufactures for other companies under their own brands. Capital investments support new products and upgrades for food and beverage processing and packaging equipment.

Sun-Rype had sales and earnings in 2005 of $125.4 million and $6.5 million respectively.

Cash provided by operating activities before changes in non-cash working capital items was $10.7 million (2004 – $9.0 million). A net decrease in non-cash working capital items of $3.7 million (2004 – increase of $3.2 million) contributed to a cash position of $20.0 million at December 31, 2005 (2004 – $9.1 million). A dividend of $0.03 per share was paid in each quarter of 2005 for a total of $1.3 million (2004 – $1.0 million).

Within the packaged goods industry, competition for market share remains fierce and national grocery chains continue to demand ever-improving quality, pricing and service levels from manufacturers. Within this environment, Sun-Rype has been able to increase its market share and customer base and win awards for innovative new products. Management believes that continued innovation in new products, packaging and production processes has been key to these results. Marketing expenditures increased at an annual average of 6.8% over the past three years. Expenditures included programs to increase consumers' awareness and help them make healthy, wholesome beverage and snack food choices.

Sun-Rype's board of directors continues to update its corporate governance policies to reflect best practices and anticipated Canadian securities regulatory requirements. The board's audit committee meets with management quarterly to review financial results, the MD&A, and to discuss other financial, operating and internal control matters, including a report from the Company's external auditors.

Annual Selected Financial Information

The following is a summary of financial information for Sun-Rype for the last three fiscal years. The net sales numbers include a reclassification of co-operative advertising expenditures from a selling, general and administrative expense to a reduction of sales revenue. The Company believes that, given the increasingly integrated nature of its sales and co-operative marketing arrangements with customers, it is more appropriate to classify shared promotion expenditures as a sales deduction rather than as a selling expense.

Year Ended December 31 (in millions of dollars except for per share amounts, which are rounded to the nearest whole cent)

	2005	2004	2003
Balance Sheet			
Total assets	$ 68.3	$ 60.7	$ 56.0
Total long-term obligations[1]	2.2	2.0	2.1
Income			
Net sales[2]	125.4	115.2	108.0
Earnings before interest expense, income taxes and amortization ("EBITA")[3]	14.0	12.4	11.6
Net earnings	6.5	5.9	5.1
Per Share Data			
EBITA[3]	1.29	1.15	1.09
Cash dividends declared[3]	0.12	0.09	0.00
Net earnings, basic	0.60	0.54	0.48
Net earnings, diluted	0.60	0.54	0.48

[1] Includes current portion of long-term debt, capital leases and other long-term obligations including future income taxes and employee future benefits.

[2] Net sales in each year include the impact of the reclassification of certain payments to customers as sales deductions.

[3] EBITA, as well as EBITA and cash dividends declared on a per share basis, are non-GAAP financial measures. Non-GAAP financial measures do not have a standardized meaning prescribed by generally accepted accounting principles and therefore may not be comparable to similar measures presented by other companies. EBITA is provided to assist investors in determining the ability of the Company to generate cash from operations to cover financial charges. EBITA is calculated in the table below and EBITA per share and cash dividends declared per share are calculated as EBITA and cash dividends declared, divided by the weighted average number of common shares outstanding during the period.

EBITA is reconciled to net earnings as follows:
Year Ended December 31 (in thousands of dollars)

	2005	2004	2003
Net earnings	$ 6,524	$ 5,851	$ 5,120
Add: Income taxes	3,502	3,098	3,171
Interest	39	86	99
Amortization	3,898	3,358	3,209
EBITA	$ 13,963	$ 12,393	$ 11,599

Total assets have increased since 2002 as a result of plant upgrades to the beverage and food manufacturing and packaging equipment, and the installation of a company-wide, integrated computer system. The increasing cash balance, generated by earnings (net of capital investments and financing outflows), also contributed to the increase in total assets.

Long-term obligations increased, primarily due to future income taxes, which reflect timing of capital cost allowance claimed for income tax purposes versus depreciation recognized on Sun-Rype's capital equipment base, partially offset by a decline in employee future benefit obligations, due to the retirement of Sun-Rype's former Chief Executive Officer in early 2004.

Earnings before interest expense, income taxes and amortization ("EBITA") reflected steady growth, an indicator of management's focus on profitable sales growth. In some years, non-recurring favorable events occurred such as gains on disposal/sale of assets and the realization of tax benefits from utilizing previously unrecognized tax loss carry-forwards. These were offset by a general trend of increased depreciation costs (the result of capital expenditures for new manufacturing and packaging equipment), increased marketing expenses (to launch and support new products) and increased administrative costs (a result of management restructuring).

Earnings per share have grown proportionate to earnings growth. The Company's share base increased slightly during the past four years as a result of exercised stock options, partially offset by the repurchase of shares under normal course issuer bids during the same period. No share options were issued in 2005 and there were none outstanding at December 31, 2005.

Results of Operations

Sales and Profitability

Sun-Rype's net sales increased in 2005 by 8.9% to $125.4 million (2004 – $115.2 million), while gross profit increased by 14.1% to $44.8 million (2005 – $39.2 million) and net earnings increased by 11.5% to $6.5 million (2004 – $5.9 million).

The improvement in net earnings was a result of increased sales volumes as well as lower cost of goods sold (as a percent of net sales), partially offset by higher listing fees (a reduction of sales) and selling, general and administrative expenses, higher amortization expenses and a loss on capital dispositions in 2005 of $60,000 compared to a gain of $691,000 on the sale of excess land in 2004.

Net sales

Net sales in both 2005 and 2004 included the deduction of listing fees and promotion costs required to launch new products.

In terms of product mix, food product sales increased to 28% of net sales, compared to 27% last year, primarily the result of higher food product contract manufacturing sales in 2005.

Sun-Rype's sales base and customer mix is concentrated primarily within the wholesale grocery channel, with the top ten customers comprising 84% of net sales (2004 – 83%) and the largest single customer comprising approximately 21% of net sales.

Branded sales

Branded sales remain the core contributor to Sun-Rype's profitability with growth of 8.3% in 2005. Branded beverage sales increased 10.5%, mainly due to increased sales of 200ml single-serve 100% juices. Branded food sales grew 2.5% over last year, due to FruitSource 100% fruit bars, which were launched in 2004.

Contract manufacturing sales

Contract manufacturing sales (co-packing, manufacturing food and beverage products for other companies) increased by 14.1% over 2004 sales, due to an increase in food co-packing sales. Sun-Rype's combined food and beverage co-packing sales have increased to 11.6% of net sales (2004 – 11.1%).

Cost of goods sold and resulting gross profit margin

Sun-Rype's gross profit margin was 35.7% of net sales in 2005, compared to 34.1% in 2004. This increase was a result of productivity improvements in manufacturing and lower raw material costs (due mainly to purchases in US dollars with a higher valued Canadian dollar than the previous year), partially offset by higher overhead costs in manufacturing and logistics. These overheads include production supervision, warehouse management and quality assurance. These costs increased 12.2% over 2004, a result of expenses incurred to install a new bar code system, increased costs for weekend shifts to meet production demand and consulting costs to improve productivity.

Selling, general and administrative expenses

Selling, general and administrative expenses for 2005 were $30.8 million, $3.2 million or 11.7% higher than last year. As a percentage of sales, these expenses increased to 24.5% in 2005 from 23.9% in 2004. Administrative costs increased $2.3 million over last year as a result of corporate restructuring, the addition of new executives on the management team and an increased focus on human resource initiatives. Freight costs for shipments to customers increased by $1.2 million, due to fuel surcharges and increased shipments to central and eastern Canada, while the sales department expenses remained flat and marketing expenses decreased by $0.3 million compared to last year.

Amortization and interest expense

Amortization of $3.9 million was higher than the $3.4 million incurred in 2004, due mainly to an increase in the capital equipment base. Management reviews all of its plant and office equipment on a regular basis, and makes provisions to account for obsolete/unused equipment or impairment of equipment values.

Interest expense was due to interest incurred on the promissory note and occasional balances outstanding on the Company's short-term bank borrowings.

Gains or losses on capital dispositions

In 2005, the disposition of miscellaneous property, plant and equipment resulted in a loss of $60,000. Comparatively, excess land was sold for a gain of $0.7 million before taxes in 2004.

Income taxes

Income taxes averaged 34.9% of earnings in 2005 (2004 – 34.6%). The difference in rates is primarily due to capital gains tax treatment. The Company's average annual tax rate for 2005 was 34.9% before adjustments.

Net earnings and earnings per share

Net earnings were $6.5 million in 2005 (2004 – $5.9 million), which resulted in basic and diluted earnings per share of $0.60 (2004 – $0.54). There are no outstanding stock options and the board of directors has no plans to recommend issuing any new stock options.

Changes in operational activities

The Company's renewed pricing agreement with local Okanagan valley packinghouses to supply process grade apples came into effect in September 2005. While apple prices and available supply volumes may vary significantly from year to year, the agreement provides for new "floor" and "ceiling" prices for process grade apples purchased from the packinghouses.

Accounts receivable and payable

Sun-Rype's accounts receivable decreased by 2.7% compared to last year. Most of this decrease was due to timing of sales orders and earlier collection of supplier rebates compared to 2004. Accounts payable increased by $1.4 million or 9.3%, similar to the level of sales volume increases. Accounts receivable and payable levels can typically increase or decrease by as much as 15% in a given period, based on the timing of sales orders, purchases and payments.

Inventories

Total inventories decreased by 8.4% in 2005 compared to 2004. Finished goods levels were lower by $1.0 million, due to increased December sales while raw materials decreased by $0.5 million, due to lower raw material unit costs and an improvement in stock volume management. Management expects that gradual increases in working capital may be required to support sales growth and the launch of new or revitalized products each year.

During 2005 and 2004, the Company recorded write-downs of certain raw materials, packaging and finished goods as a result of the revitalization and rationalization of various product lines. Inventories are regularly reviewed for obsolescence or value impairment and write-downs occur as needed in the normal course of business. Product launches and new packaging revitalizations are managed by the sales department to minimize old raw material inventories, including packaging, before new product items are launched.

Income tax obligations

Income taxes payable increased to $0.9 million from $0.1 million last year, primarily due to timing of tax installments and an increase in before-tax earnings. Future income tax liabilities decreased to $1.7 million in 2005 from $1.8 million in 2004, primarily due to declines in the effective future income tax rate as well as the difference between amortization of fixed assets expensed in the books of the Company and capital cost allowance claimed for income tax purposes.

Commitments, Risks and Uncertainties

Sun-Rype competes with a number of large food and beverage producers, many of which may have greater financial resources than Sun-Rype. To the extent these competitors are able to produce competitive products at a lower cost and utilize larger financial, distribution and marketing resources, Sun-Rype may be required to make significant expenditures to improve or even maintain its competitive position.

The Company's long-term future depends upon its ability to continue to develop new products that can reach an adequate level of distribution or "critical mass" in existing or new markets. Ensuring the success of newly developed products requires sufficient expenditures for product development, customer listing fees, market research and consumer support programs. Sun-Rype's product development process is designed to reduce risk by employing third-party research and economic analysis at key junctures in the development process. In spite of these best efforts, however, there is no guarantee a new product will succeed in the marketplace.

Sun-Rype derives approximately 12% of its revenue from manufacturing food or beverage products for other companies to distribute under their own brand or private label name. Similar to Sun-Rype's own branded products, there is no guarantee these products will succeed in the marketplace. Hence, the manufacturing agreements Sun-Rype has with these companies have no sales volume guarantees.

Process grade apples and juice concentrates (primarily apple and orange) are commodities that experience volume and price volatility. Apples are sourced primarily from BC and Washington state, while concentrates are sourced globally. In years of short supply Sun-Rype is able to use alternate sources of apples, juices and concentrates. Management continually evaluates the long-term availability of apples and concentrates in conjunction with its forecast production needs.

Higher raw material and concentrate prices can be partially recovered through higher product selling prices, within the limits of market and consumer acceptance and competition from other juice products.

Sun-Rype purchases certain fruit juices, purées, concentrates and packaging materials at prices denominated in US dollars. From time to time, equipment and parts are purchased in other foreign currencies such as the Euro dollar or the Swiss franc. Contract manufacturing sales to US customers are denominated in either Canadian dollars or the current US dollar equivalent of Canadian dollars (resulting in a short-term exposure to foreign exchange rate fluctuations).

In 2005, payments for US dollar purchases during the normal course of business were approximately $32.5 million (2004 – $20.8 million). During 2006, planned US dollar purchases for raw material supplies and capital equipment will increase the total expected US dollar purchase level to approximately US$29 million.

Sun-Rype maintains an active environmental program that reflects responsible policies and a respect for the environment. Audits are conducted annually (every third year by an external environmental auditor) to ensure that appropriate management policies and practices towards waste management, recycling and reuse of products are maintained.

In January 2005, the Consumers' Association of Canada filed a class action lawsuit against a number of parties in the beverage industry, including Sun-Rype, other manufacturers, retailers and Encorp Pacific (Canada), the administrator of the beverage container deposit and recycling fee system in British Columbia ("BC"). The claim alleges the illegal use of consumer deposits collected under BC's beverage container stewardship program regulations. In January 2006, the defendants, including Sun-Rype, filed an application to strike the claim summarily as lacking sufficient merit to warrant certification of the class. Due to the early stages of this claim, the amount and likelihood of loss, if any, is not determinable. As a result, no provision for any loss has been recorded in these financial statements.

The Company's three-year collective agreement with the Teamsters Local Union No. 213 expires August 31, 2006.

Summary of Quarterly Results

Quarterly Statement of Earnings Analysis

Quarterly Information (in millions of dollars except per share amounts)

	2005				2004			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net sales[1]	$ 32.6	$ 31.8	$ 29.2	$ 31.8	$ 29.1	$ 28.2	$ 28.4	$ 29.5
Net earnings	2.4	1.2	1.0	1.9	1.1	1.2	1.5	2.1
Earnings per share[2]								
Basic	0.22	0.11	0.09	0.18	0.10	0.11	0.14	0.20
Diluted	0.22	0.11	0.09	0.18	0.10	0.11	0.14	0.20

[1] Net sales on a quarterly basis include the impact of the reclassification of certain payments to customers as sales deductions. These were previously recorded as a selling expense for quarters 1 through 3 of 2004.

[2] Rounded to the nearest whole cent.

Fourth Quarter

Sales in the fourth quarter of 2005 were $32.6 million, compared to $29.1 million for the fourth quarter of 2004. Sales were higher primarily in the single-serve 200ml juice products and food contract manufacturing. Gross profit percentage for the fourth quarter of 2004 was 37.0% of sales compared to 34.5% of sales last year, due mainly to improved raw material costs, improved foreign exchange rates on US dollar raw material purchases and production efficiencies, partially offset by increased supply chain costs.

Net earnings for the fourth quarter of 2005 were $2.4 million (2004 – $1.1 million). In addition to improved gross profit margins, the fourth quarter selling, general and administrative expenses declined to 22.3% of sales in 2005 compared to 25.6% of sales in 2004. This was primarily a result of lower marketing expenditures of $0.9 million (due to the timing of marketing programs in the year), partially offset by increased administrative costs of $0.4 million (a result of management restructuring) and freight costs for shipments to customers of $0.4 million (a result of rising fuel surcharges).

Liquidity, Working Capital & Investment

Sun-Rype has no material long-term debt. The Company has, however, entered into contractual commitments and has operating lease obligations as follows:

Payments Due by Period ended December 31 (in thousands of dollars)

Contractual Obligations	Total	2006	2007–2008	2009–2010	2011+
Operating leases[1]	$ 1,182	$ 444	$ 550	$ 139	$ 49
Purchase obligations[2]	3,708	3,708	–	–	–
Other obligations[3]	466	–	466	–	–
Total obligations	$ 5,356	$ 4,152	$ 1,016	$ 139	$ 49

[1] Annual cost to maintain operating leases for office equipment and sales offices in Calgary, Toronto and Kelowna.

[2] Purchase of raw material ingredients in the ordinary course of business.

[3] Post-employment benefits, based on employees' estimated retirement plans.

In addition, the Company is committed to purchasing a minimum number of units of packaging material annually until 2009, or it would be liable for an annual penalty of $775,000 (management estimates this would occur only in the event of a dramatic decline in market demand).

Cash from operating activities, before changes in non-cash working capital items, has increased to $10.7 million in 2005 from $9.0 million in 2004. The increase is due mainly to increased sales volumes and profit margins. Management's focus continues to center on profitable product lines and investments in equipment or new products that meet or exceed targeted returns on capital.

Over the past four years, cash flows have been utilized to invest in food and beverage processing and packaging equipment, as well as new product launches. Sun-Rype's minimal interest-bearing debt position and operating history of generating positive cash flows provide a strong liquidity position, giving the Company the ability to use accumulated cash and unused debt facilities should further expansion or acquisition opportunities arise.

Changes in certain non-cash working capital items may significantly increase or decrease cash flows from operating activities from period to period. Timing of promotions, customer orders and product price increases may result in

significant increases or decreases of finished goods inventories in the short term. An increase or decrease in process grade apple crop volumes could also correspondingly impact production and finished goods levels. Accounts payable may also vary from year to year based on timing of large purchases, payments and capital expenditure programs. Income taxes payable or receivable can fluctuate from year to year, due to statutory installments that exceed or are less than final taxes assessed.

At December 31, 2005, Sun-Rype's working capital (current assets less current liabilities) was $28.1 million (2004 – $21.0 million). The 2005 changes in non-cash working capital items resulted in a net cash inflow of $3.7 million, as cash and balance sheet management initiatives resulted in decreased accounts receivable and inventories, and increased accounts payable and income tax liabilities. Comparatively, activities in 2004 resulted in a total cash outflow of $3.2 million to fund non-cash working capital items, due to growth in accounts receivable and inventory as sales expanded into central and eastern Canada, and declines in income taxes payable, partially offset by a slight increase in accounts payable.

Financing activities in 2005 included dividends of $1.3 million, while activities in 2004 included dividends of $1.0 million, as well as the one-time payment of Chief Executive Officer retirement obligations of $0.6 million, normal course issuer bid purchases of $0.3 million for Sun-Rype shares, and proceeds of $0.2 million received on the conversion of stock options to shares.

Expenditures in 2005 for property, plant and equipment totaled $2.4 million (2004 – $4.5 million). These investments were mainly for sustaining capital in 2005 and for sustaining activity as well as beverage packaging equipment of $2.0 million in 2004. Proceeds on disposition of land and equipment in 2005 were $0.2 million compared to proceeds of $1.0 million on the disposal of excess land and other smaller fixed assets in 2004.

In 2006, the Company expects to spend approximately $2.4 million on sustaining capital expenditures, and a further $2.1 million on plant and equipment upgrades, for a total of $4.5 million. Additional capital investment projects related to capacity increases, new products or other opportunities (which are able to generate an adequate return on capital) will be considered by management and the board of directors on a case-by-case basis. Most of the manufacturing and packaging equipment is currently operating five or six days per week. There is some opportunity to increase productivity and utilization of existing equipment in certain product lines; however, others are fully utilized and may require further capital expenditures to increase capacity.

Management expects that cash flow from operations will be adequate to fund anticipated 2006 capital expenditures of approximately $4.5 million and anticipated working capital needs. Until such time as the Company approves a major capital investment or acquisition that exceeds the current cash position, other financing requirements, if any, will be minimal.

Dividend Declared

On February 15, 2006, the Company declared a quarterly dividend of $0.03 per common share, for a total of approximately $325,000, payable on March 15, 2006, to shareholders of record at the close of business on February 28, 2006.

On March 2, 2006, the Company declared a special dividend of $1.50 per common share, for a total of approximately $16 million, payable March 31, 2006, to shareholders of record at the close of business on March 15, 2006.

Capital Resources

The Company maintains a $15.0 million standby operating line of credit with a Canadian bank, which bears interest at the bank's prime lending rate (December 31, 2005 – 5.00%). This facility is secured by a general assignment of accounts receivable, inventories and demand debentures creating a fixed and floating charge over all Company assets.

Off-balance Sheet Arrangements

There are no off-balance sheet obligations that are not disclosed in the financial statements.

Critical Accounting Estimates

Management relies on certain estimates in preparing financial statements, including provisions for uncollectible accounts receivable, the amortization rate of capital assets, provisions for sales returns and allowances and provisions for obsolete inventory. Actual results could differ from these estimates.

Estimates of Useful Life and Impairment of Long-lived Assets

The Company estimates the useful life of property, plant and equipment and amortizes the cost of the asset over that estimated useful life (see note 1(f) of the notes to the financial statements). The Company periodically assesses the recoverability of values assigned to long-lived assets after considering potential impairment indicated by such factors as business and market trends, future prospects, current market value and other economic factors. The Company records an impairment loss in the period when it is determined that the carrying amount of the individual long-lived asset exceeds the undiscounted estimate of future cash flows expected to be generated from future use and eventual disposition of that asset. The impairment loss is measured as the difference between the carrying amount and estimated fair value of the asset.

There were no material impairment losses in 2005 and 2004.

Changes in Accounting Policies

There were no changes in accounting policies that required incorporation in the financial statements during 2005.

Financial Instruments and Other Risks

The Company's financial instruments include accounts receivable, a promissory note payable, accounts payable and long-term obligations for which the carrying values approximate fair values. Other instruments are instruments that may be settled by the delivery of non-financial assets, such as a commodity futures or utilities contracts.

Credit risk is the risk of loss from non-performance of suppliers, customers or financial counter parties to a contract. The Company's customers consist mainly of grocery stores, mass merchandisers and club stores across Canada. The Company's ten largest customers comprise approximately 84% of sales activity (2004 – 83%). At December 31, 2005, 87% (2004 – 84%) of accounts receivable were attributable to these customers. The Company maintains credit policies that include a review of a counter party's financial condition, measurement of credit exposure and monitoring of concentration of exposure to any one customer or counter party.

The Company is exposed to foreign currency risk as certain of its raw material inputs are purchased in US dollars. These purchases in 2006 are estimated to be approximately US$29 million (2005 – US$26.6 million). A one-cent increase or decrease in the cost to purchase a US dollar would correspondingly increase or decrease the Company's raw material costs by approximately $300,000 on an annual basis.

The Company periodically enters into foreign exchange forward contracts to manage foreign exchange risk associated with anticipated future purchases denominated in foreign currencies. Realized and unrealized gains and losses resulting from changes in the market value of these contracts are recorded as other investment income each period unless they meet specified criteria to qualify as hedging instruments under Canadian GAAP. If these contracts meet the criteria for hedging instruments, any unrealized gains and losses are deferred and recognized in earnings when the related hedge transaction occurs. As at December 31, 2005 and 2004, the Company had no financial or other instruments outstanding that related to hedging using forward purchase foreign exchange contracts.

Related Parties

In the normal course of business, the Company sells beverage and food products to a major food retailer in western Canada that is controlled by a major shareholder that holds approximately 30% of the outstanding common shares of Sun-Rype. Sales to this retailer are less than 10% of the Company's total sales.

Disclosure Controls and Procedures

As at December 31, 2005, an evaluation was carried out for the effectiveness of the Company's disclosure controls and procedures as defined in Multilateral Instrument 52-109. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer of the Company concluded that the design and operation of these disclosure controls and procedures were effective.

Outstanding Shares

As at March 2, 2006, the Company had 10,827,600 common shares issued and outstanding. The shares traded on the Toronto Stock Exchange under the symbol SRF, at prices in 2005 ranging from a high of $12.60 to a low of $10.36 and a December 31 closing price of $12.10.

Additional Information

Additional information relating to Sun-Rype's operations can be found in the Company's Annual Information Form, filed with all applicable Canadian securities commissions and available for viewing on the Canadian Securities Administrator's website at www.sedar.com and on the Company's website at www.sunrype.com.

Forward Looking Statements

This MD&A may contain forward looking statements; such statements involve known and unknown risks, uncertainties and other factors outside of management's control that could cause actual results to differ materially from those expressed in the forward looking statements. Sun-Rype does not assume responsibility for the accurateness and completeness of forward looking statements and does not undertake any obligation to publicly revise these forward looking statements to reflect subsequent events or circumstances.

Auditor's Report

To the Shareholders of Sun-Rype Products Ltd.

We have audited the balance sheets of Sun-Rype Products Ltd. as at December 31, 2005 and 2004, and the statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004, and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Vancouver, British Columbia
March 2, 2006

Sun-Rype Products Ltd.

Balance Sheets

at December 31 (in thousands of dollars)

	2005	2004
Assets		
Current assets		
Cash and cash equivalents	$ 19,965	$ 9,140
Accounts receivable (note 2)	11,868	12,194
Inventories (note 3)	13,331	14,546
Prepaid expenses	515	469
Future income taxes (note 9)	262	281
	45,941	36,630
Property, plant and equipment (note 4)	22,312	23,999
Deferred expenses	–	41
	$ 68,253	$ 60,670
Liabilities and Shareholders' Equity		
Current liabilities		
Promissory note (note 6)	$ 675	$ 675
Accounts payable and accrued liabilities	16,211	14,826
Income taxes payable	919	99
	17,805	15,600
Long-term obligations	430	184
Future income taxes (note 9)	1,735	1,828
	19,970	17,612
Shareholders' equity		
Share capital and contributed surplus (note 7)	18,698	18,698
Retained earnings	29,585	24,360
	48,283	43,058
	$ 68,253	$ 60,670

Commitments, guarantees and contingencies (note 11)

Approved by the Board of Directors

D. Selman, Director **J. Alfonso**, Director

See accompanying notes to these financial statements.

Statements of Earnings & Retained Earnings

For the years ended December 31 (in thousands of dollars except per share amounts)

	2005	2004
Net sales (note 14)	$ 125,411	$ 115,214
Cost of sales	80,618	75,973
Gross profit	44,793	39,241
Selling, general & administrative expenses	30,770	27,539
Amortization	3,898	3,358
Interest expense	39	86
Loss (gain) on capital dispositions	60	(691)
	34,767	30,292
Earnings before income taxes	10,026	8,949
Income taxes (note 9)	3,502	3,098
Net earnings	6,524	5,851
Retained earnings, beginning of year	24,360	19,483
Dividends paid	(1,299)	(974)
Retained earnings, end of year	$ 29,585	$ 24,360
Earnings per share (note 12)		
Basic	$ 0.60	$ 0.54
Diluted	0.60	0.54

See accompanying notes to these financial statements.

Statements of Cash Flows

For the years ended December 31 (in thousands of dollars)

	2005	2004
Cash provided by (used in):		
Operating activities		
Net earnings	$ 6,524	$ 5,851
Non-cash items:		
Amortization of property, plant and equipment	3,857	3,346
Amortization of deferred expenses	41	12
Loss (gain) on capital dispositions	60	(691)
Future income taxes (note 9)	(74)	349
Employee future benefits and other	246	124
	10,654	8,991
Changes in non-cash working capital items (note 10)	3,700	(3,241)
	14,354	5,750
Financing activities		
Capital lease payment	–	(12)
Long-term obligations repaid	–	(586)
Dividends paid	(1,299)	(974)
Shares purchased and cancelled	–	(281)
Proceeds from issue of shares	–	182
	(1,299)	(1,671)
Investing activities		
Proceeds on capital dispositions	187	974
Expenditures for property, plant and equipment	(2,417)	(4,508)
	(2,230)	(3,534)
Increase in cash position	10,825	545
Cash and cash equivalents, beginning of year	9,140	8,595
Cash and cash equivalents, end of year	$ 19,965	$ 9,140
Supplemental information on cash flows		
Interest paid	$ 39	$ 37
Income taxes paid	2,947	3,244

See accompanying notes to these financial statements.

Notes to the Financial Statements

For the years ended December 31, 2005 and 2004

1. Significant Accounting Policies

(a) Basis of presentation

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

(b) Measurement uncertainty

The presentation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses disclosed during reporting periods. Significant areas that involve estimates include provisions for uncollectible accounts receivable, the amortization rate and estimated useful life of property, plant and equipment, provisions for sales returns and allowances, and provisions for obsolete inventory. The actual amounts could differ from those estimates.

(c) Foreign currency translation

Transactions denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the time of the transactions. At the balance sheet date, monetary assets and liabilities denominated in a foreign currency are translated at the period end rate of exchange. Exchange gains and losses arising on translation or settlement of foreign currency-denominated monetary items are included in the determination of net income for the current period.

(d) Cash and cash equivalents

Cash and cash equivalents include cash and short-term deposits in high quality, low risk money market instruments, which are cashable on demand 90 days or less from the date of issue.

(e) Inventories

Raw materials and supplies are recorded at the lower of cost, determined on a weighted average basis, and replacement cost.

Finished goods are recorded at the lower of cost and net realizable value. Finished goods include the cost of direct labour, direct materials and variable overheads related to production, applied at a standard rate, which approximates actual costs. Fixed overhead costs related to production are considered a period cost and, as such, are not included as a component of inventory but are expensed in the period they are incurred.

(f) Property, plant and equipment

Property, plant and equipment are recorded at cost, net of investment tax credits. The Company uses the straight-line method of providing amortization over the estimated lives of the property, plant and equipment as follows:

Buildings	15–40 years
Equipment	
Processing	5–25 years
Other	3–12 years

(g) Impairment of long-lived assets

The Company regularly compares the carrying value of long-lived assets to the estimated undiscounted future cash flows that may be generated from future use and eventual disposition of those assets. The Company records an impairment loss in the period when it is determined that the carrying amount of the asset exceeds the undiscounted estimate of future cash flows from the asset. The impairment loss is measured as the difference between the carrying amount and estimated fair value of the asset.

(h) Marketing and product launch costs

The Company records new product marketing and launch costs as an expense when incurred.

(i) Asset retirement obligations

The Company recognizes legal obligations associated with the retirement of property, plant and equipment that result from its acquisition, construction or normal operations. These obligations are recorded at fair value and subsequently adjusted for the accretion of discount and any changes in the underlying cash flows. The asset retirement cost is capitalized as part of the cost of the related asset, then amortized to earnings over the remaining life of the asset. The Company has determined that it has no material asset retirement obligations at December 31, 2005.

(j) Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, temporary differences arising from the tax basis of an asset or liability and the corresponding carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to be in effect in the periods that the temporary differences are expected to reverse. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period the change occurs.

(k) Revenue recognition

Sales are recognized upon the transfer of risk and title to finished goods to customers, which typically occurs upon shipment and when collectibility of proceeds is reasonably assured. The Company deducts from gross sales all payments to customers related to pricing discounts, returns and allowances, certain sales and marketing discounts, promotion funds, co-operative advertising, coupons and product listing fees.

(l) Stock-based compensation plans

The Company has stock-based compensation plans, which are described more fully in note 7. Contributions by the Company to the employees' share purchase plan, which is available to all permanent full- and part-time employees, are recorded as a compensation expense. Shares are purchased on the employees' behalf by the Company's plan administrator.

The Company records stock-based compensation and other stock-based payments to employees and third parties as a stock-based compensation expense in the statement of earnings. The compensation expense is measured using a fair-value based method. As no stock options or stock-based payments were issued to employees or others during the years ended December 31, 2005 and 2004, the application of this accounting policy had no material impact on the results of operations and financial position of the Company or the related financial statement disclosure.

(m) Foreign exchange forward contracts

The Company periodically enters into foreign exchange forward contracts to manage foreign exchange risk associated with anticipated future purchases denominated in foreign currencies. Realized and unrealized gains and losses resulting from changes in the market value of these contracts are recorded as other investment income each period unless they meet specified criteria to qualify as hedging instruments under Canadian GAAP. If these contracts meet the criteria for hedging instruments, any unrealized gains or losses are deferred and recognized in earnings when the related hedge transaction occurs.

2. Accounts Receivable (in thousands of dollars)

	2005	2004
Trade	$ 10,964	$ 11,479
Other	904	715
Total	$ 11,868	$ 12,194

3. Inventories (in thousands of dollars)

	2005	2004
Parts	$ 1,899	$ 1,656
Raw materials and supplies	6,158	6,610
Finished goods	5,274	6,280
Total	$ 13,331	$ 14,546

4. Property, Plant and Equipment (tabular dollar amounts in thousands)

	2005			2004		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	$ 170	$ –	$ 170	$ 179	$ –	$ 179
Buildings	16,475	11,487	4,988	16,085	10,796	5,289
Processing equipment	38,659	24,038	14,621	39,606	23,296	16,310
Other equipment	7,850	5,317	2,533	6,412	4,191	2,221
Total	$ 63,154	$ 40,842	$ 22,312	$ 62,282	$ 38,283	$ 23,999

5. Bank Indebtedness

The Company maintains a $15.0 million standby operating line of credit with a Canadian bank, which bears interest at the bank's prime lending rate (December 31, 2005 – 5.00%). This facility is secured by a general assignment of accounts receivable, inventories and demand debentures creating a fixed and floating charge over all Company assets. At December 31, 2005, no balances were outstanding under this operating line of credit.

6. Promissory Note

The promissory note, due on demand in the amount of $675,000 (2004 – $675,000), is secured by a letter of credit and bears interest at the bank prime rate plus $^{1}/_{4}$%.

7. Share Capital and Contributed Surplus

Authorized

100,000,000 – Common shares fully participating and without par value ("Common shares").

Authorized preference shares were cancelled in 2005. There were no preference shares issued and outstanding at the time of the cancellation.

Issued and fully paid capital (tabular dollar amounts in thousands)

	2005		2004	
	Shares	**$**	**Shares**	**$**
Common shares				
Opening balance	10,827,600	$17,756	10,796,900	$17,619
Issued for cash	–	–	57,500	182
Repurchased and cancelled	–	–	(26,800)	(45)
Closing balance	10,827,600	17,756	10,827,600	17,756
Contributed Surplus				
Opening balance		942		1,178
Excess of cost over book value on repurchased and cancelled shares		–		(236)
Closing balance		942		942
Total		$18,698		$18,698

Employee share purchase plan

The Company has an employee share purchase plan ("ESPP") enabling all permanent full- and part-time employees to acquire Common shares through payroll deductions with financial assistance provided by the Company. On September 27, 2005, the Company amended its ESPP whereby the 400,000 Company treasury shares reserved for issuance under the ESPP were cancelled. It was resolved that Company shares purchased in the future under the ESPP would continue to be either through a member firm of the Toronto Stock Exchange or from such other source as may be determined by the board of directors. Eligible employees may contribute monthly an amount, which shall not exceed 7% of salary, and the Company has agreed to contribute 35% of the amount contributed by each eligible employee. All funds and equity shares held by the administrator pursuant to the ESPP are held for the account of the individual eligible employee.

Normal course issuer bid transactions

During 2004, the Company maintained a normal course issuer bid ("NCIB") allowing shares to be repurchased for cancellation. In 2004, under the NCIB the Company purchased 26,800 shares for cancellation at an average price of $10.48 per share for a total consideration of $281,000. The excess purchase cost over book value of approximately $236,000 was applied to contributed surplus. There were no shares repurchased under the NCIB in 2005. The Company did not renew the NCIB when it expired on March 23, 2005.

Stock option transactions

The Company had a stock option plan that provided options to purchase Common shares of the Company for its employees, officers and directors. The options granted pursuant to this plan were exercisable at a price equal to or greater than the fair market value of the Common shares at the time the options were granted. During 2004, the remaining 57,500 stock options that were originally granted under this plan were exercised at a weighted average price of $3.16. No share options were issued in 2005 and there were none outstanding at December 31, 2005.

Shares reserved for future issuance

On September 27, 2005, the Company cancelled the remaining shares reserved for issuance (400,000 Common shares) under the ESPP. The Company has no shares reserved for future issuance in Treasury.

8. Post-employment Benefits (tabular dollar amounts in thousands)

The Company maintains a defined contribution (money purchase) pension plan for substantially all of its salaried employees. Pension costs charged to earnings for the defined contribution plan were $296,000 in 2005 (2004 – $287,000).

Under the terms of certain employment agreements with selected senior officers, the Company provides for compensation to be paid to the individuals at the date they cease their employment. These obligations, including any past service costs resulting from amendment to the compensation arrangements, are accrued on a straight-line basis over the expected average remaining service period of the employee. Details of the total post-employment benefit expense charged to earnings and the related long-term obligation for accrued benefits are as follows:

	2005	2004
Compensation expense	$ 246	$ 113
Accrued benefit obligation at December 31	430	184

At December 31, 2005, the estimated amount payable on settlement of this benefit obligation was $466,300 (2004 – $356,000).

9. Income Taxes (tabular dollar amounts in thousands)

Differences between the statutory income tax rate applicable to the Company and the Company's effective income tax rate applied to net earnings consist of the following:

	2005		2004	
Income tax provision at the combined basic Canadian federal and provincial rate	$ 3,501	34.9 %	$ 3,179	35.5%
Adjustment in income tax rate resulting from:				
Non-deductible expenses	37	0.4	56	0.6
Other	(36)	(0.4)	(137)	(1.5)
Effective income tax provision	$ 3,502	34.9%	$ 3,098	34.6%

	2005	2004
The income tax provision consists of the following:		
Current tax expense	$ 3,576	$ 2,749
Future income tax expense	(74)	349
Total income tax provision	$ 3,502	$ 3,098

Significant components of future income tax assets and liabilities include:

	2005	2004
Accrued liabilities	$ 385	$ 368
Losses and other deductions	20	27
Future income tax assets	405	395
Property, plant and equipment	(1,869)	(1,923)
Other	(9)	(19)
Future income tax liabilities	(1,878)	(1,942)
Net future income tax liability	$ (1,473)	$ (1,547)

The net future income tax liability is reported as follows:

	2005	2004
Future income tax benefit (current)	$ 262	$ 281
Future income tax liabilities	(1,735)	(1,828)
Net future income tax liability	$ (1,473)	$ (1,547)

10. Changes in Non-cash Working Capital Items (in thousands of dollars)

	2005	2004
Accounts receivable	$ 326	$ (1,935)
Inventories	1,215	(1,275)
Prepaid expenses	(46)	(53)
Accounts payable and accrued liabilities	1,385	569
Income taxes	820	(547)
Total	$ 3,700	$ (3,241)

11. Commitments, Guarantees and Contingencies

(a) The Company has entered into operating lease and rental commitments for certain processing and office equipment and office space for the next five years as follows:

2006	$ 444,425
2007	398,782
2008	150,844
2009	83,781
2010	55,043

(b) Under the terms of a processing and filling systems agreement, the Company is committed to purchasing a minimum number of units of beverage packaging material annually until 2009, or it would be liable for an annual penalty of $775,000. Management estimates that penalties would only be payable in the event of a dramatic decline in market demand.

(c) In the normal course of business the Company enters into commitments to purchase certain minimum quantities of energy and raw materials including fruit juice purées and concentrates, primarily in US dollars. At December 31, 2005, the Company had commitments to purchase approximately $3.7 million of these materials within the next year (2004 – $4.1 million).

(d) In January 2005, the Consumers' Association of Canada filed a class action lawsuit against a number of parties in the beverage industry, including Sun-Rype, other manufacturers, retailers and Encorp Pacific (Canada), the administrator of the beverage container deposit and recycling fee system in British Columbia ("BC"). The claim alleges the illegal use of consumer deposits collected under BC's beverage container stewardship program regulations. In January 2006, the defendants, including Sun-Rype, filed an application to strike the claim summarily as lacking sufficient merit to warrant certification of the class. Due to the early stages of this claim, the amount and likelihood of loss, if any, is not determinable. As a result, no provision for any loss has been recorded in these financial statements.

12. Earnings per Share

Basic earnings per share are computed using the weighted average number of Common shares outstanding during the period. The weighted average number of Common shares outstanding in 2005, on a non-diluted basis, was 10,827,600 (2004 – 10,817,203). Diluted earnings per share are calculated using the treasury stock method with the effect that the diluted average number of Common shares outstanding in 2005 was 10,827,600 shares (2004 – 10,834,835 shares).

13. Financial Instruments and Credit Risk

The Company's financial instruments include accounts receivable, a promissory note payable, accounts payable and long-term obligations for which the carrying values approximate fair values. Other instruments are instruments that may be settled by the delivery of non-financial assets, such as a commodity futures contract.

Credit risk is the risk of loss from non-performance of suppliers, customers or financial counter parties to a contract. The Company maintains credit policies that include a review of a counter party's financial condition, measurement of credit exposure and monitoring of concentration of exposure to any one customer or counter party. The Company's customers consist mainly of grocery stores, mass merchandisers and club stores across Canada. The Company's ten largest customers comprise approximately 84% of sales activity (2004 – 83%). At December 31, 2005, 87% (2004 – 84%) of accounts receivable were attributable to these customers.

The Company is exposed to foreign currency risk as certain of its raw material inputs are purchased in US dollars. In 2006, these purchases are estimated to be approximately US$29 million (2005 – US$26.6 million).

The Company periodically enters into foreign exchange forward purchase contracts to manage foreign exchange risk associated with anticipated future purchases and contractual commitments denominated in foreign currencies. As at December 31, 2005 and 2004, the Company had no financial or other instruments outstanding that related to hedging or forward purchase foreign exchange contracts.

14. Segmented Information (in millions of dollars)

The Company operates in the food and beverage industry in Canada and has only one industry segment.

Details of net sales by significant product lines are as follows:

	2005	2004
Beverage	$ 90.7	$ 83.8
Food	34.7	31.4
Total	$ 125.4	$ 115.2

15. Comparative Figures

Certain of the comparative figures have been reclassified in the financial statements to conform to the classifications used in 2005.

16. Related Parties

In the normal course of business, the Company sells beverage and food products to a major food retailer in western Canada that is controlled by a major shareholder that holds approximately 30% of the outstanding Common shares of Sun-Rype Products Ltd. Sales to this retailer are less than 10% of the Company's total sales.

17. Subsequent Events

On February 15, 2006, the Company declared a quarterly dividend of $0.03 per Common share, for a total of approximately $325,000, payable March 15, 2006, to shareholders of record at the close of business on February 28, 2006.

On March 2, 2006, the Company declared a special dividend of $1.50 per Common share, for a total of approximately $16 million, payable March 31, 2006, to shareholders of record at the close of business on March 15, 2006.

The Company has committed to purchase US$3.6 million using foreign exchange forward contracts and to use call and put options to purchase an additional US$18 million at market rates with a maximum price of $1.17 and a minimum price of $1.1056.

A Commitment to Sound Corporate Governance

At Sun-Rype, we believe that our ability to create maximum value for all stakeholders depends on an unwavering commitment to sound corporate governance. We work hard to ensure that Sun-Rype's policies reflect both the letter and spirit of Canadian regulatory guidelines and that our approach keeps pace with evolving best practices and anticipated requirements. For a complete description of the Company's practices and policies, please refer to Sun-Rype's 2006 Management Information Circular, which is also available on our website at www.sunrype.com and the Canadian Securities Administrator's website at www.sedar.com.

Directors

Jess Alfonso
Vice President and Director
Pacific Opportunity Capital Ltd.
Vancouver, BC

Robert Dawson
Owner
Dawson Orchards Ltd.
Cawston, BC

James Eccott
Corporate Director
Kelowna, BC

Merv Geen
Businessman
Rock Creek, BC

Thomas Knowlton
Corporate Director
Toronto, ON

Donald Selman
Senior partner
Wolrige Mahon Chartered Accountants
Vancouver, BC

Eric Sorensen
President and Chief Executive Officer
Sun-Rype Products Ltd.
Kelowna, BC

Officers

Brad Buchanan
Vice President
Customer & Corporate Business Development

Merv Geen
Chairman of the Board

Cameron Johnston
Vice President, Marketing

Andrea Krause
Vice President, Human Resources

Dave McAnerney
Vice President, Manufacturing

Robert McGowan
Vice President, Finance & Administration
and Chief Financial Officer

Gail Prichard
Corporate Secretary

Eric Sorensen
President and Chief Executive Officer

Cindy Wilker
Vice President, Supply Chain

Five-Year Historical Review

For the years ended December 31 (dollar amounts in thousands except per share amounts)

	2005	2004	2003[4]	2002[4]	2001[1, 2, 4]
Operating Results					
Net sales[1, 4]	$125,411	$115,214	$107,954	$100,043	$92,625
Gross profit[1, 4]	44,793	39,241	36,029	32,514	31,595
Gross profit %	35.7%	34.1%	33.4%	32.5%	34.1%
Selling, general & administrative expenses ("SG&A")[1, 2, 4]	$ 30,770	$ 27,539	$ 24,207	$ 22,518	$22,548
Other[3]	60	(691)	223	7	(308)
EBITA	13,963	12,393	11,599	9,989	9,355
Amortization	3,898	3,358	3,209	2,446	2,324
EBIT	10,065	9,035	8,390	7,543	7,031
Interest expense	39	86	99	89	106
EBT	10,026	8,949	8,291	7,454	6,925
Income taxes	3,502	3,098	3,171	2,581	2,550
Net earnings	6,524	5,851	5,120	4,873	4,375
Financial Position and Cash Flow					
Working capital	28,136	21,030	16,746	10,450	13,528
Invested capital	48,958	43,733	38,967	33,768	28,965
Total assets	68,253	60,670	56,002	48,764	42,384
Interest bearing debt	675	675	687	717	824
Shareholder's equity	48,283	43,058	38,280	33,051	28,141
Cash from operating activities before changes in non-cash working capital items	10,654	8,991	9,402	7,858	6,487
Cash from operating activities	14,354	5,750	9,220	11,918	4,030
Capital expenditures	2,417	4,508	2,606	10,959	2,913
Financial Ratios					
Net earnings as a % of net sales	5.2%	5.1%	4.7%	4.9%	4.6%
After-tax return on average equity	14.3%	14.4%	14.4%	15.9%	16.8%
After-tax return on average assets	10.1%	10.0%	9.8%	10.7%	11.4%
Pre-tax (EBIT) return on average invested capital	21.7%	21.9%	23.1%	24.0%	25.8%
Current ratio	2.6	2.3	2.0	1.7	2.0
Debt: equity ratio	0.0	0.0	0.0	0.0	0.0
Per Share Information					
Average shares outstanding (000's)	10,828	10,817	10,669	10,658	10,583
Earnings/share	$ 0.60	$ 0.54	$ 0.48	$ 0.46	$ 0.41
Cash flow/share	0.98	0.83	0.88	0.74	0.61
Book value/share	4.46	3.98	3.59	3.10	2.66
Share price – high	12.60	13.00	8.25	8.00	6.60
Share price – low	10.36	7.90	6.32	5.75	3.85
Share price – close	12.10	10.95	8.01	6.50	6.45

[1] Net sales, gross profit and SG&A expenses for 2001 were restated in 2002 to reclassify certain sales discounts, promotions and product listing fees paid to customers, formerly included in SG&A expenses, as a reduction of sales, in accordance with new Financial Accounting Standards Board (US) guidance.

[2] 2001 was restated in 2002 to reflect a change in accounting policy to expense, when incurred, certain marketing and product launch costs. Previously these costs, consisting principally of package development costs and listing fees for new products and extensions to existing products, were deferred and amortized over the life of the product to a maximum of 36 months. The effect on earnings in each year is to reduce amortization expense and add actual total launch cost expenditures to SG&A expenses.

[3] Other includes: sale of excess land and China equipment in 2001; sale of fixed assets in 2002; loss on capital dispositions in 2003; gain on sale of excess land in 2004; loss on capital dispositions in 2005.

[4] Further to note 1 above, net sales, gross profit and SG&A expenses for 2001 – 2003 were changed in 2004 to reflect a reclassification of the balance of co-operative advertising costs, formerly recorded as an SG&A expense, as a deduction from net sales. Previously, the portion of co-operative advertising costs paid to customers that could have been purchased from unrelated third parties were classified as SG&A expenses.

Shareholder Information

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2006 Annual General Meeting
May 10, 2006
2:00 pm (local time)
The Coast Capri Hotel
1171 Harvey Avenue
Kelowna, BC

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